Attorney Docket No. 3263/BRWN (021180-00053)

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PATENT & TRADEMARK OFFICE

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE BOARD OF PATENT APPEALS AND INTERFERENCES

Appellants:	Owen H. Brown, et al.
Serial No.:	10/010,340
Filed:	December 5 2001
For:	SECURE DIGITAL ESCROW ACTION TRANSACTION...
Group:	3627
Examiner:	Gerald J. O'Connor

July 13, 2006

Mail Stop: Patent Appeal
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

RESPONSE TO NOTIFICATION OF NON-COMPLIANT APPEAL BRIEF

SIR:

This is in response to the Notification of Non-Compliant Appeal Brief mailed June 21, 2006 in response to applicant's Appeal Brief filed April 5, 2006. It is believed that each of the items checked on the Notification have been addressed. It is therefore believed that the present Appeal Brief is in proper compliance with the requirements of 37 CFR 41.37(c). The fee has been previously paid. However, any fee required in connection with this brief that has not

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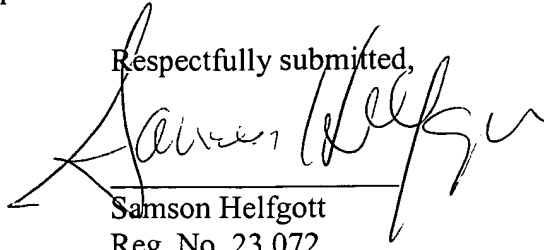Filed by Express Mail
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pursuant to 37 C.F.R. 1.10.
By _____
Frances Doyle

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Respectfully submitted,

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Group: 3627

Examiner: Gerald J. O'Connor

APPELLANT'S BRIEF

April 5, 2006

MailStop: Patent Appeal (Fee)
Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

Sir:

This Appeal Brief is being filed under 37 CFR 41.37 in connection with the appeal of the above-identified application, a Notice of Appeal having been filed on December 22, 2005 together with a Pre-Appeal Brief Request for Review for which a Notice of Panel Decision from Pre-Appeal Brief was mailed on February 21, 2006. Thus, this Appeal Brief is being filed within two months from the mailing of the Decision. Applicant hereby Petitions for a one month extension pursuant to 37 CFR 1.136.

REAL PARTY IN INTEREST

The real party in interest is Davo Financial Services LLP of Montclair, New Jersey.

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RELATED APPEALS AND INTERFERENCES

No other appeals or interferences are known which will directly affect or be directly affected by or have a bearing on the Board's decision in the pending appeal.

STATUS OF CLAIMS

Claims 1-8, 10, 24-38, 40-41 have been cancelled leaving claims 9, 11-23, 39 and 42 pending in the application. All of the claims, i.e., claims 9, 11-23, 39 and 42 stand finally rejected and are on appeal. A copy of the claims 9, 11-23, 39 and 42 which are on appeal, appear in the appendix hereto.

STATUS OF AMENDMENTS

No amendment was filed in response to the Final Rejection dated November 16, 2005.

SUMMARY OF THE CLAIMED SUBJECT MATTER

Claim 9 (the only independent claim)

The subject matter of the preset claimed invention relates to a method for impounding escrow funds (by way of example, tax payments) during the course of a merchant handling a credit card transaction.

When a merchant receives a credit card in payment for a transaction, he submits the credit card for authorization of the particular transaction. An electronics funds processor (EFP) processes the amount and gets authorization from the credit card issuer. When it receives such authorization, it advises the merchant and funds are transferred accordingly.

One of the most difficult problems being faced by Federal and State Authorities is the collection and payment of taxes from merchants. Such taxes include sales and use taxes and the like. While many systems are in place to provide that the merchants report the taxes on the

transaction, one of the major difficulties that the authorities face is the ability to collect such taxes. As the actual payment of the taxes is under control of the merchant, the merchant can delay, selectively pay, or purposely not pay at all in the hope of possibly settling with the tax authorities or somehow delaying or avoiding payment.

The method of the claimed invention in claim 9 is to make use of such credit card authorization systems for making tax payments (or other escrow amounts). There is an automatic debit of the tax amount directly from the funds received by the electronic fund processor from the credit card issuer, even before the merchant gets his money. The tax amount is actually debited from the money coming in from the credit card issuer and never even reaches the merchant. Therefore, tax payments can be made without any involvement or control of the merchant. This lack of involvement of the merchant is what can make such a system successful for the tax authorities. With the present invention, the tax authorities can be assured of the payment independently of the merchant.

Claim 9 describes in the preamble the usual authorization transaction but then goes on to claim that the amount to be escrowed (for example, tax amount) is removed from the authorized amount and placed into an escrow account whereupon the crediting to the merchant will only be of the net amount for the transaction without the merchant ever receiving the amount being escrowed. In this manner the funds are placed into escrow account without control of the merchant and without any special action needed by the merchant to place those funds into the escrow account.

This is described on page 4 of the specification, in the first full paragraph; page 7 beginning with the last three lines and continuing until the last paragraph of page 8, and in Fig. 1

and its corresponding description on pages 13 and 14; and Fig. 2 and its description in the center of page 16.

Claims 11-14

Claims 11-14 add the additional features that other service fees can likewise be subtracted along with the escrow amount that is being withheld before the net is sent to the merchant. This is described in the specification on the bottom of page 3 to the top of page 4; on pages 8 and 9, in connection with the description of Fig. 1, and on the top of page 15.

Claims 15-18

Claims 15-18 describe that not only can the inventive method be used for regular tax but also for back taxes. This is described on page 11.

Claim 19

Claim 19 adds the additional feature that this method can also be used as a method of forced savings by the merchant whereby the money is extracted before any net amount is credited to the merchant's actual account. This is described in the specification in the center paragraph on page 12.

Claim 20

Claim 20 adds the additional feature that the method will be able to exempt those transactions that are tax free and on those amounts no escrow funds will be subtracted. This can be found in the specification on page 16 referring to Fig. 2.

Claims 21-22

Claims 21 and 22 add the additional features that the information on the amount in the escrow account can be provided to the merchant and/or the escrow account provider, and it can

be provided in combination with a sales draft. This is supported in the specification on page 2 in the center and page 15 in the center.

Claim 23

Claim 23 adds the additional feature that the escrow account information can be provided to the merchant via a secure website. This is explained in the specification on page 9, the first full paragraph and page 10 next to the last paragraph.

Claim 39

Claim 39 adds that a further authorized transaction can also be subtracted before sending the net to the merchant. This is explained in the specification on page 3, first full paragraph.

Claim 42

The last claim, claim 42, adds the ability of not only handling credit card transactions, but within the same system handling cash transactions. This is explained in detail in the specification at page 4, page 5, the beginning of the second paragraph of page 6 and continuing onto the top of page 7.

GROUNDS OF REJECTION TO BE REVIEWED ON APPEAL

Claims 9, 11-23, 39, and 42 stand rejected under 35 USC 103(a) as being unpatentable over Cretzler (US 5,644,724), in view of Hanna, et al. (US 6,230,928).

ARGUMENT

A. Arguments With Respect To The Rejection Under 35 USC 103(A) With Respect To Claims 9, 11-17, 20-23 And 39

With regard to claim 9, the examiner essentially relied upon Cretzler as disclosing substantially all of the elements of claim 9, with the exception that Cretzler involves "the merchant paying the tax amount(s) directly to the taxing authorities, rather than depositing the funds into an EFP escrow account." In that regard, the examiner relied upon Hanna, et al. stating

that Hanna, et al. includes an EFP escrow account into which sales tax amounts of a merchant are directly deposited for later payment to the taxing authorities. The examiner concluded that it would have been obvious to modify Cretzler to send the calculated sales tax amount to an EFP escrow account for later payment to the taxing authorities.

However, a key element that is not found by this combination is the fact that in applicant's claimed invention, the deposit into the escrow account is done without the participation of the merchant and specifically that the merchant has no control or involvement over this deposit. The claims specifically point this out. Quite the contrary, the examiner himself admits that Cretzler "involves the merchant paying the tax amounts". Hanna, et al., does not cure this point. Hanna, et al., does not provide for an EFP depositing into an escrow account. The examiner has failed to find any reference, alone or in combination, that provides such escrowing being done by the EFP provider and not the merchant.

Cretzler teaches a specific system whereby there is a device that the merchant accesses for transaction approval which also calculates the amount of the tax. After the merchant receives the authorization code he issues a receipt to the purchaser. The microprocessor then stores the transaction information including the amount of authorization allocated in taxes. (Column 4, lines 45-50).

At the end of the business day, the merchant enters a transmit code into the computer which causes the computer to send tax information to the bank of the merchant. Such includes:

1. the date and tax ID of the merchant;

2. the total sum of collected taxes;

3. the allocation of the total sum of collected taxes to the individual taxing authorities;

4. the date merchant expects to deposit the collected tax on the merchant bank; and

5. an authorization code to instruct the merchant bank to wire transfer the collected sums to the appropriate taxing authorities. (Column 4, lines 53-68).

Accordingly, the merchant must deposit the collected tax funds. The tax funds are not automatically removed before the merchant gets his money and do not automatically deposited by the EFP without the merchant's intervention. A merchant must deposit the money and then he must authorize the payment.

Cretzler continues on column 5, in the first paragraph by again pointing out that after receiving the transaction data the corresponding merchant bank "waits a predetermined period of time to allow the merchant to deposit the collected funds into the account of the merchant bank before wire transferring the sums to the taxing authority banks".

It also points out that if the merchant has provided the bank with an authorization code "and if funds are already on deposit" the merchant bank will wire transfer the funds indicated on the next business day.

With respect to service banks, Cretzler points out in column 5, lines 19-35 that at the end of the day the merchant enters the transmit code. To cause "an authorization code to instruct the service bank to wire transfer the allocated sums to the appropriate taxing authorities."
When the service bank receives this authorization it "waits a predetermined period of time to allow the merchant to return the debits receipts to the service bank for processing." Alternately, "if the merchant has provided the bank with an authorization code and the sums are already on deposit, the merchant bank will wire transfer the sums allocated the next business day." (Column 5, lines 35-42).

Again in column 5, lines 55-60, Cretzler describes that for cash transactions "a merchant can enter the sum of collected taxes... and instruct the bank to wire transfer, from the account of

the merchant the collected taxes...". Alternately, for credit and debit card transactions "the merchant can notify individual and selected ones of the credit card or debit card service banks.... and instruct the service bank <u>to wire transfer from the account of the merchant those sums allocated to taxes</u>."

It is therefore evident from Cretzler that it is the <u>merchant</u> who must instigate the payment. Without the merchant giving an authorization to pay, an authorization code, instructions to wire transfer, an indication of where to take the sums from, etc., no taxes will be paid. Throughout Cretzler it is the merchant that instigates and causes the payment to be made.

Accordingly, if the merchant desires to sit and wait one day, one month, six months, one year, etc., no payment will be made to the taxing authorities without his specific authorization to process the actual payment. The tax funds are under <u>his</u> control and until <u>he</u> authorizes proceeding with the payment no such payment will be made for each and every transaction.

Furthermore, from Cretzler there is absolutely no indication of any association between the account holding the taxes and the account in which the sum for the transaction is deposited in the merchant account. By way of example, if the particular sales item is $100, and it is calculated that there is $10 due in taxes, the merchant is credited with the $110 into his account. In connection with the merchant bank, it clearly indicates that the merchant has to indicate when he is going to deposit the money (column 4, line 63; column 5, lines 5-8). In the case of the service bank it must wait until the merchant returns the debit receipts or until it receives an authorization code and the funds are already on deposit (column 5, lines 30-40 and lines 65-67). In no place does Cretzler in any way indicate that it is the EFP that sets aside the money in a separate account and <u>it</u> controls the deposit of the tax money in the escrow account so that the merchant never even gets the tax money into his own accounts. In the present invention, the

only monies that the merchant gets is the net amount _after_ the taxes have been already subtracted. Thus, in the example given, only $100 would be deposited by the _EFP_ in the merchant account. The $10 is never deposited in the merchant account. It is always deposited immediately _by the EFP_ in the escrow account which is under control of the EFP.

Nothing in Cretzler teaches that the EFP subtracts the tax money before paying the merchant and sends the merchant _only_ the transaction money and not the tax money. Nothing in Cretzler teaches that the EFP is the one that credits the tax (escrow) account by itself without any authorization code by the merchant for such deposit based upon each and every transaction. Nothing in Cretzler teaches an association between the merchant account and the tax account both of which are controlled by the EFP so that the EFP deposits only a portion of the total amount into the merchant account and applies another portion (the tax amount) to the escrow account.

The disclosure of Hanna et al. teaches a _merchant_ ATM machine. It is an automated _merchant_ banking apparatus. It is an apparatus that the merchant himself utilizes and controls. In every step of Hanna it is the _merchant_ who makes use of the piece of equipment. It is the _merchant_ who has control and provides instruction on every step of the way.

The examiner's reference to column 11, lines 45-59 of Hanna, et al, still relates to the _merchant_ making use of the device. He can establish a tax account and even a tax escrow account which may be located at a bank. However, the merchant does the transferring. It mentions that the money can be electronically transferred, but it is under the merchant's instruction. It does not even mention an EFP of the type in Cretzler. Furthermore, it is the _merchant_ that operates to put in the money, to segregate receipts on the basis of categories, etc.

Furthermore, it is the merchant who instructs to transfer funds from an escrow account that he has deposited funds into.

There is absolutely no teachings about a third party depositing the money into the escrow account. It is the merchant who deposits the money into the escrow account and then instructs the third party to make payments from the escrow account. However, it is the merchant that deposits the money not a third party.

Combining Hanna, et al. into Cretzler does not provide the teaching for having a third party separate monies and never even putting the funds into the merchant's account, but separating and putting it into a separate escrow account. Neither Cretzler nor Hanna, et al., provide that it is the third party that makes the deposit. Neither reference provides the teaching that it is the third party who has the funds available and the merchant never receives the funds in his account. Therefore, one skilled in the art even combining the references would not learn a method where the merchant receives only a portion of the transaction, not including the escrow tax money which he never receives, and it is never entered into his account.

The claimed invention is that the tax monies are not under control of the merchant, but of the EFP. The merchant never has to deposit the money, never receives the money, never has control over the money, the money is extracted before the merchant receives it. Therefore, tax payments can be made without any involvement of the merchant to either deposit, authorize, instruct, or in any way indicate that the payment should be made. This lack of involvement of the merchant is totally absent from Cretzler and even when adding the combination of Hanna et al. is still does not provide for any teaching of the merchants themselves being out of the picture and the EFP making the deposit directly into the escrow account.

In the final rejection, the examiner has skillfully <u>paraphrased</u> the elements of present claim 9 to suit what Cretzler shows, but has not included the actual limitations recited in claim 9. As a result, Cretzler may show the elements recited by the examiner, however, Cretzler does not show the elements <u>claimed</u> in the present invention.

The examiner states that all elements of the claimed invention have been shown by Cretzler, with the exception of the use of an EFP escrow account. For that he cites Hanna, et al. However, even here, the examiner fails to include the specific limitations of this element and instead paraphrases it in a manner so that it reads on what Hanna et al shows, but doesn't read on the language of the claim.

As a result, the examiner concludes that Cretzler (taken for what the <u>examiner</u> has paraphrased the claim) in combination with Hanna et al. (taken again for what the <u>examiner</u> has again paraphrased the claim) makes claim 9 obvious (as well as other claims). However, the examiner has failed to quote the exact language of claim 9 and therefore has failed to show where the exact language of claim 9 is shown by the combination of Cretzler and Hanna, et al. Examples of such failure will be presented.

(a) With respect to the step of crediting the merchant account, the examiner recites that Cretzler teaches:

> "Crediting a tax account of the merchant with payment of the tax amount."

However, the exact language of the claimed element is:

> "Crediting a merchant escrow account <u>by EFP</u> with the escrow amount, <u>said escrow amount being debited from the received EFP payment</u>." (Emphasis added.)

The examiner has failed to take into consideration that the claim is limited to the crediting taking place <u>by the EFP</u>. Furthermore, the claim is very specific in stating that the amount is debited from the <u>received EFP payment</u>.

The examiner has failed to take into consideration these specific claim limitations, which are <u>not</u> shown by Cretzler, and these limitations (along with others) focus on key features of the present invention. At no point has the examiner found any reference where the crediting is done <u>by the EFP</u> and where the amount debited is from the <u>received EFP payment</u>.

Quite the contrary, in Cretzler it is the <u>merchant</u> that submits the money from his own funds when he wants, and makes it available for payment.

(b) Concerning the amount winding up in the merchant account (the amount that the merchant actually receives) the examiner simply states:

> "It being inherent to the method of Cretzler that the credit to
> the merchant (at the end of a taxing period) is a net credit".

Thus, the examiner simply indicates that <u>ultimately</u>, the amount that winds up in the merchant's account is a net amount. However, that net amount in the merchants account can come about in two ways. One way is by putting in the total amount, including both the amount that the merchant must get <u>plus</u> the tax amount and thereafter, the tax amount can be subtracted from that account leaving the merchant with a net of only the amount that the merchant should receive after the tax payments. The other method is to <u>only</u> give the merchant the net amount.

All the examiner concludes from Cretzler is "at the end of a taxing period" the merchant winds up with a net amount which excludes the tax amount.

However, Cretzler teaches that the <u>total</u> amount is deposited, and it is only when the <u>merchant</u> desires to pay he authorizes the money to be taken out of his account. Of course, at the

end of the taxing period, the merchant winds up with a net amount. However, that is not what the claim says. The claim limitation recites as follows:

> "Crediting a merchant account by EFP with <u>only</u> a net payment for the one
> or more authorized transactions, said net payment being credited by
> an amount equaling the received EFP payment reduced by the escrow amount."
> (Emphasis added.)

In the present claim, the net payment results not because the total amount is deposited in the merchant's account and later the tax amount subtracted <u>by the merchant</u> for paying the tax whereby he <u>ends up</u> with a net amount (as the examiner states). In our case, he never receives anything <u>but</u> the net amount.

(c) The very last clause of the method claim recites:

> "Wherein the determining, forwarding and crediting steps are executed
> by the EFP upon receipt of the payment request <u>for the transaction</u> via
> the merchant POS terminal, <u>without depending on subsequent action</u>
> <u>by the   merchant relating to the merchant escrow account</u>". (Emphasis added.)

The examiner has never even mentioned this limitation and never even considered where it is shown in <u>any</u> of the references. He totally disregarded this limitation entirely, namely that there is no involvement of the merchant relating to the escrow account.

However, this limitation is significant in that it is one more way of distinguishing over Cretzler, Hanna, et al. and the combination thereof.

This limitation also points out that all of these steps of determining, forwarding and <u>crediting</u> are executed "upon receipt of the payment request <u>for the transaction</u>." Thus, the step of crediting, which the claim recites as crediting with the <u>net</u> amount directly from the received funds with the tax amount being sent to the escrow account, takes place for <u>each</u> <u>transaction</u>. This is specifically contrary to what the examiner quotes Cretzler for. The examiner indicates

that in Cretzler it is credited to the merchant "at the end of a taxing period". Our claim recites that it is <u>upon receipt of the request for the transaction</u> that such crediting takes place.

This same claim limitation also recites:

"Without depending on subsequent action by the merchant".

The examiner has not even quoted this part of the claim and has not even addressed it.

(d) In his rejection, the examiner points out what he believes is the only missing item of Cretzler. Again, however, he <u>paraphrases</u> the missing item without quoting from the claim. In paraphrasing the missing item, the examiner just indicates that in Cretzler, it involves

"The merchant paying the tax amount directly to the taxing authorities,
rather than depositing the funds into an EFP escrow account for
later payment to the taxing authorities on behalf of the merchant."

Skillfully, the Examiner makes the distinction of <u>where</u> the tax funds come from (Cretzler-directly, Hanna-escrow account). However, the Examiner doesn't address <u>who</u> makes the payment. He admits that in Cretzler, the <u>merchant</u> makes the payment, but never addresses this point from Hanna, et al. In fact, (as will be pointed out later) in Hanna it is <u>also</u> the <u>merchant</u> who makes the payment, into the escrow account. However, claim 9 recites that the <u>EFP</u> makes the payment into the escrow account.

(e) The examiner cites Hanna et al. for the alleged missing escrow account. However, again he <u>paraphrases</u> and again does not quote the words of the claim. The examiner indicates that in Hanna, et al. there is an EFP escrow account into which sales tax amounts of a merchant are directly deposited. The examiner just quotes Hanna, et al., to identify where the account resides, namely that it is an EFP escrow account. However, he neglects to quote that portion from the claim when it says that it is the <u>EFP</u> that <u>deposits</u> it, not the merchant. The issue is not where the account resides. This is a method step involving who does the depositing of the

money into the account. The examiner carefully avoids identifying <u>who</u> does the depositing, when this is a critical limitation in the claim. In Hanna, et al. it is the <u>merchant</u> that does the depositing. In the present claim it specifically says that the <u>EFP</u> does the depositing.

In the examiner's Response to Arguments, on page 7 of his final rejection, in paragraph 7, he simply says that it is not proper to attack each reference individually, but it is the combination that must be addressed. However, the references must first show what the examiner cites them for individually. The examiner cites Cretzler and explains what he determines from Cretzler. Applicant's arguments pointed out where Cretzler does not support the claim language and not even the paraphrased language for which the examiner cited it. Furthermore, the examiner cited Hanna, et al. to show "third party" escrow functionality. Hanna, et al. does not have "third party" escrow functionality. It shows an escrow account, but one that is set up by the <u>merchant</u>.

Accordingly, the argument presented to the examiner was that as neither Cretzler nor Hanna et al. have any such third party involvement, the <u>combination</u> cannot provide this claimed feature in claim 9.

In support of applicant's argument that one skilled in the art would not conceive of the present invention, applicant had submitted declarations in the amendment dated March 18, 2005. Such declarations were was submitted under Section 37 CFR Section 1.132. Such declarations were entered by the examiner in his office action issued June 14, 2005 in paragraph 3 of this office action. Copies of such affidavits are again attached in the Evidence Appendix.

Applicant suggested that that one of ordinary skill in the art would be represented primarily by credit card processors and payroll companies, and secondarily by tax software companies and by government groups seeking to achieve sales tax reform such as the

Streamlined Sales Tax Project (SSTP). The SSTP is a cross-industry group organized in March 2000 by state government representatives to develop a simplified sales and use tax administration system.

Payroll companies and credit card processors respectively perform payroll tax impounding and credit card processing via EFT, and would therefore arguably have the necessary skills required to understand and practice the present invention. As the present invention presents a new business opportunity for such companies, it would have been thought that they would in addition have the necessary motivation for developing and practicing the present invention. However, that has not been the case.

Applicants previously submitted under 37 C.F.R. § 1.132 declarations (which were entered by the Examiner as indicated above) made by Mr. Alan S. Klein and Mr. James G. Robertson, which are again enclosed in the Evidence Appendix. Mr. Klein was Chief Executive Officer and President of Ace Payroll Services Inc. Mr. Robertson is a retired and former Vice President of Automatic Data Processing (ADP). As is evident from their declarations, both Mr. Klein and Mr. Robertson have extensive experience in payroll tax industry.

Mr. Klein and Mr. Robertson each acknowledges that they are familiar with the present invention, and submits as an opinion that the present invention provides an attractive business opportunity that would be investigated by payroll companies and/or other financial services companies if known to these companies. Each further submits, to the best of his knowledge, that the present invention has not been identified, considered or used by anyone other than Applicants. Mr. Klein acknowledges that it is his informed belief that the method of Applicants' claimed invention has in particular not been considered by First Data Corporation (FDC), which acquired Taxware International Inc. (Taxware) in 2001, a leading developer of global

transaction-based tax calculation and compliance systems, and holds itself out to be world's largest independent, third party transaction processor. FDC's businesses include EFP services and sales of tax software, thereby uniquely positioned the company as having the skill sets necessary to practice the present invention.

Applicants offer the following rationale to explain why the present invention has apparently not been considered by these groups and others in the financial services industry, and why the present invention is accordingly nonobvious.

Applicants developed the present invention in large part in response to insights provided by one of the inventors (himself a "merchant" or "seller") into the capabilities of third party payroll services and credit card processors. The vast majority of sellers today use a third party payroll service and a credit card processor respectively for managing payroll tax compliance and credit/debit transactions, and yet many of these same sellers struggle to manage sales and use tax compliance. As the majority of sales transactions today are executed as credit/debit card transactions, the inventors recognized the potential for linking sales and use tax compliance to credit/debit card transaction processing, and developed the claimed method based on this inventive insight.

Applicants are not alone in their recognition of a need for improving sales and use tax compliance. The above referenced SSTP was formed because the existing-and notoriously antiquated-state sales and use tax system has been widely recognized by state governments and businesses alike as overly complex and unduly burdensome. While sellers have expressed interest in obtaining a third party passive method to calculate, collect, file and remit sales and use tax on their behalf, the current evidence (as expressed, for example, by the above-described

declarations) suggests that no one has yet provided a solution in the framework of the present invention. Applicants offer the following explanation for the present state of this art.

Applicants submit that one aspect of the unobviousness of the present invention rests in its ability to bridge seemingly disparate industries who share a common IT thread of processing funds via EFT in order to produce the intended result. These industries, including credit card processors, payroll companies, tax software companies and State governments each hold a different piece of the puzzle to implementing third party sales and use tax processing. But so far, no single industry has developed the insight and taken the initiative to piece together the disclosed elements of the present invention. Applicants submit that, if the present invention were truly obvious to one skilled in the art as of the time of invention, in view of the benefits provided, the present invention would be a part of the current tax collection lexicon by now.

In summary, Applicants express the opinion that no other entity, tax software developers, hardware developers, credit card processors, payroll companies or other financial service institutions, has disclosed nor did they ever suggest the capability for executing a tax collection process accordingly to the principles of Applicants' claimed invention. This opinion is further corroborated by the opinions of Mr. Klein and Mr. Roberson, acknowledged experts in the payroll tax industry, as discussed above and recorded in the attached declarations.

Claim 9 is believed to address the differences over the combination of references cited by the examiner. Specifically, inter alia, the claim indicates that the escrow (tax) account is credited automatically by EFP into the escrow account not by the merchant. Furthermore, the claim states said that the merchant's account is credited with a net payment after reducing the amount by the escrow account.

The claim further recites that the merchant account is credited with <u>only</u> the net payment of the portion of the authorized transaction reduced by the escrow amount. Thus, the claim specifically recites that if the transaction and the tax are $110, the merchant account <u>only</u> receives $100. He never receives the $10 in his account. The $10 is automatically removed and put into his escrow account so that he <u>only</u> receives the $100.

The claim further recites that the various steps of determining, forwarding and crediting are all executed by the EFP upon the receipt of the payment request "for the transaction". Thus the only request that the merchant is involved in is the request relating to the initial transaction. There is no further subsequent action by the merchant <u>in connection with the merchant escrow account</u>.

Claims 11-17, 20-23, and 39 are patentable for the reasons stated relating to claim 9 and all dependent from claim 9.

B. <u>Arguments With Respect To The Rejection Of Claim 18 Under 35 USC 103(a)</u>

The examiner rejected claim 18 indicating that it is well known to increase a tax rate by garnishment and therefore it would have been obvious to further modify Cretzler to increase the tax rate by the garnishment amount.

Firstly, all the arguments previously presented with respect to claim 9 apply here as well. Secondly, the examiner has not cited any reference in support of his contention. Furthermore, even assuming, for argument sake, that it would be well known to garnish amounts of collection for back taxes, it is believed that one skilled in the art would not think of combining that with an automatic deduction of sales tax from clearing transactions and getting authorizations of payment of credit cards. Cretzler deals with a global system, namely where the same system is applied to all users. This is no indication of any ability to tailor a particular system to a particular user. In

order to permit garnishment and payment of back taxes and increase the percentage, it is necessary to increase on an <u>individual</u> basis the amounts deducted. There is no teaching or suggestion in Cretzler to provide individual tailoring of the system for a particular merchant.

C. Arguments With Respect To The Rejection Of Claim 19 Under 35 USC 103(a)

The examiner had rejected claim 19 in that Hanna et al. comprises a merchants savings account and it would therefore be obvious to further modify Cretzler to establish the escrow account as a merchant savings account.

Firstly, all the arguments previously presented with respect to claim 9 apply here as well. Secondly, combining the Cretzler and Hanna et al. references as the examiner has suggested would not provide for a merchant savings account that is <u>not</u> under control of the merchant. As previously argued, the merchant is still the one in control while in the present claimed invention, it is a third party that extracts the escrow amounts and the merchant only receives the net amount after the extracted portion has been removed. The extracted portion is not under control of the merchant.

Accordingly, the present claim 19 provides for a method of "forced savings" whereby the merchant can have the amounts removed automatically from his transactions without his having to control it and in fact, without his ability to control such escrowed amounts. This "forced savings" is not what would result from the combination of Cretzler and Hanna et al. The combination from Cretzler and Hanna et al. would simply be the merchant controlling when the money is extracted and that would not be the concept of "forced savings" as presented in claim 19.

D. Arguments With Respect To The Rejection Of Claim 42 Under 35 USC 103(a)

Claim 42 incorporates the handling of cash transactions in addition to the credit card transactions. Regarding claim 42, the examiner indicated that the method of Cretzler accommodates cash transactions. Firstly, all the arguments previously presented with respect to claim 9 apply here as well. Secondly, while Cretzler does briefly indicate that he accommodates cash transactions, such again are completely under the control of the merchant. Although Cretzler will calculate all of the tax information, until the merchant gives instructions for payment of the taxes for the case transactions, such will not be made.

On the contrary, claim 42 is specific to indicate that once the cash transaction is entered then the amount of the taxes is automatically debited from a source set up by the merchant so that the tax money is again removed from the merchant's access and placed together with the other tax monies being escrowed so that they are no longer under the control of the merchant but can automatically be paid to the tax authority. Such is not taught by Cretzler.
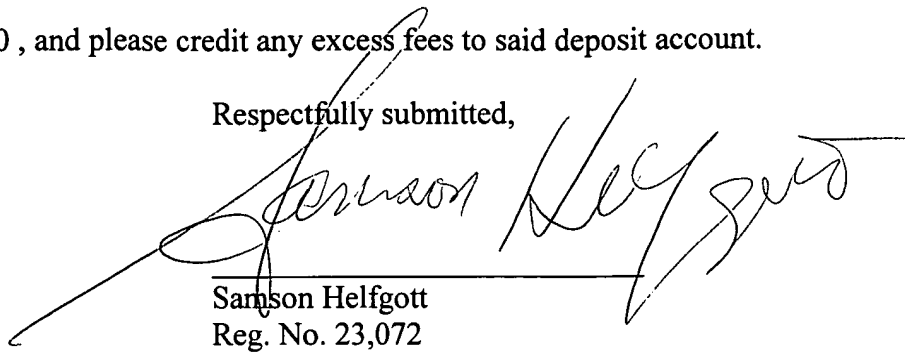
CONCLUSION

For the foregoing reasons, the final rejection of the claims should be reversed.

FEES

To the extent necessary, applicants petition for an extension of time under 37 CFR 1.136. Please charge any shortage in the fees due in connection with the filing of this paper, including extension of time fees, to the deposit of account Katten Muchin Rosenman LLP, Deposit

Account No. 50-1290 , and please credit any excess fees to said deposit account.

Respectfully submitted,

Samson Helfgott
Reg. No. 23,072

CUSTOMER NUMBER 026304
Direct Phone: (212) 940-8683
Fax: (212) 940-8987
Docket No 3263/Brwn (021180-00053)
SH/mas

CLAIMS APPENDIX

CLAIMS

9. A method for impounding escrow funds by an electronic funds processor (EFP) from payments made via electronic funds transfer (EFP) from credit/debit card transactions transacted between a merchant, the EFP and one or more credit/debit card issuers, the EFP and one or more credit/debit card issuers being interconnected by means of at least one computer network, wherein the credit/debit card transactions are electronically initiated by the merchant via a merchant point of sale (POS) terminal that communicates with the EFP, and are electronically processed by the EFP and the one or more credit/debit card issuers , wherein the credit/debit card transactions include authorization requests made by the merchant, authorized transactions granted by the one or more credit/debit card issuers, payment requests made by the merchant concerning one or more authorized transactions, and payments made by the one or more credit/debit card issuers, the method comprising the steps of:

receiving a payment request electronically transmitted by the merchant via the merchant POS terminal, said payment request concerning one or more authorized transactions;

determining an escrow amount based on the one or more authorized transactions;

forwarding the payment request to at least one of the one or more credit/debit card issuers electronically via the at least one computer network;

receiving an EFP payment made by the at least one credit/debit card issuer via the at least one computer network for the one or more authorized transactions;

crediting a merchant escrow account by EFP with the escrow amount, said escrow amount being debited from the received EFP payment; and

crediting a merchant account by EFP with only a net payment for the one or more authorized transactions, said net payment being credited by an amount equaling the received EFP payment reduced by the escrow amount;

wherein the determining, forwarding and crediting steps are executed by the EFP upon receipt of the payment request for the transaction via the merchant POS terminal, without depending on subsequent action by the merchant relating to the merchant escrow account.

11. The method of claim 9, wherein the net payment is further reduced by one or more service fees specified by a the one or more credit/debit card issuers.

12. The method of claim 9, wherein the net payment is further reduced by one a service fee specified by the EFP.

13. The method of claim 9, wherein a service fee specified by an escrow account provider is debited from the escrow amount.

14. The method of claim 13, wherein the escrow account provider is selected from the group consisting of the EFP, a merchant bank and other credit/debit card service providers.

15. The method of claim 9, wherein the escrow amount represents a tax owed with respect to the payment requests.

16. The method of claim 15, wherein the tax owed is determined as a function of a tax rate for a tax jurisdiction identified to the payment requests.

17. The method of claim 16, wherein the tax rate is associated with a schedule selected from the group consisting of sales tax schedules, value-added tax schedules and garnishment schedules.

18. The method of claim 17, wherein the tax rate is increased by a predetermined amount over the tax rate of the jurisdiction to facilitate payment of back taxes.

19. The method of claim 9, wherein the escrow account is a merchant savings account.

20. The method of claim 9, wherein the determining step further comprises the steps of:

identifying one of the one or more authorized transactions is exempt from impounding escrow funds; and

determining the escrow amount based on the others of the one or more authorized transactions.

21. The method of claim 13, further comprising the step of providing the information about the escrow portion to at least one of the merchant and the escrow account provider.

22. The method of claim 21, wherein the information about an escrow portion is provided in combination with a sales draft.

23. The method of claim 9, further comprising the step of providing escrow account information to the merchant via a secure web site.

39. The method of claim 9, further comprising the step of:

forwarding an issuer payment request to the at least one of the one or more credit/debit card issuers concerning one of the one or more authorized transactions; and

crediting the merchant account with an EFP a payment made by he one credit/debit card issuer, said EFP payment corresponding to the one authorized transaction;

wherein the net payment is further reduced by an amount corresponding to the one authorized transaction.

42. The method of claim 9, the EFP further performing the steps of:

receiving a cash transaction report reported by the merchant;

determining a second escrow amount based on the cash transaction report;

debiting the second escrow amount from a source of merchant funds; and

crediting the merchant escrow account with the second escrow amount.

EVIDENCE APPENDIX

Copies of Evidence pursuant to 37 CFR 1.132 referred to previously and submitted inApplicants' amendment dated March 18, 2005 and entered by the Examiner as noted in his office action of June 14, 2005 in paragraph 3.

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Inventors: Owen H. BROWN
David Neal JOSEPH

Serial No.:   10/010,340

Filed: December 5, 2001

Title: **SECURE DIGITAL ESCROW ACCOUNT TRANSACTION SYSTEM AND METHOD**

Examiner: Gerald J. O'Connor

Group Art Unit: 3627

January 26, 2005

Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

DECLARATION OF ALAN S. KLEIN

S I R:

    I, Alan S Klein, declare as follows:

1. I am currently employed as CEO/President, Ace Payroll Services, Inc. of which I am a 50% shareholder. I have held this position since December 1994. Ace Payroll Services, Inc. is among the larger independent payroll processors in the Northeast. I am also co-owner of Payroll Done Right operating Payroll Systems of Nevada.

2. I have worked in the financial services industry since July 1984 when I graduated from Fairleigh Dickinson University with a BS in accounting. During the early years of my career, prior to the formation of Ace Payroll Services, Inc. I worked in the public accounting arena where part of my function was to prepare payroll and sales tax returns

for my clients. Upon the formation of Ace Payroll Services, Inc. I left public accounting. Through Ace Payroll Services, Inc. I have had almost eleven years experience in the area of electronic collection and payment of taxes. In 2004 Ace Payroll Services, Inc. was responsible for the collection and submission of approximately $200,000,000 in tax payments. A common theme from my accounting experience and my current conversations with accountants is the desire to outsource both payroll and sales tax processing. I have been asked many times by both accountants and clients if we could handle the sales tax process for them. To date the technology has not been set up to allow for sales tax processing.

3. I am familiar with the invention claimed in the above-referenced patent application, which has been characterized as:

A method for impounding escrow funds via electronic funds transfer (EFT) from credit/debit card transactions transacted between a merchant, a third party electronic funds processor (EFP) and one or more credit/debit card issuers interconnected by at least one computer network. Credit/debit card transactions are initiated by the merchant via a merchant point of sale (POS) terminal, are processed by the EFP, and are forwarded by the EFP to the credit/debit card issuers for authorization. Standard credit/debit card transactions currently performed include authorization requests made by the merchant, authorization request approvals granted by the credit/debit card issuers, payment requests made by the merchant concerning, and payments made by the credit/debit card issuers by EFT to the EFP, and then by EFT by the EFP to a merchant bank account. According to the method of the present invention, the EFP in addition performs the steps of:

receiving a payment request from the merchant for authorized transactions;

determining an escrow amount based on the transactions;

forwarding the payment request to the credit/debit card issuers;

receiving payment via EFT from credit/debit card issuers;

crediting a merchant escrow account by EFT with a payment for the escrow amount; and
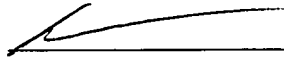
crediting the merchant account by EFT with a net payment reduced by the escrow amount.

By means of this method, the escrow funds are effectively impounded as a result of the payment request made by the merchant, with no further merchant action required. Merchants benefit by taking a "passive" role as third parties (the EFP, an escrow account manager) instead assume fiduciary responsibility for calculating escrow amounts, impounding these amounts and making associated payments. Governments (who may wish to promote use of these escrow accounts as a means for collecting tax payments) obtain a secure, unified and simplified system for collection that reduces "the tax gap". And the financial services industry obtains a new financial product to bring to the tax and credit card market, which may be leveraged to further promote other associated products and services (for example, payroll processing services).
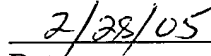
4. In my opinion, the claimed invention represents a new invention that has not heretofore to my knowledge been practiced by anyone in the financial services business, including myself. The payroll processing industry is constantly reinventing itself with new product integration. A case in point is the integration of worker's compensation payments with payroll processing, a process that in the past required estimated payments and annual audits but since being integrated can now be calculated on an actual use basis. To my knowledge,there currently is no provision for electronic sales tax submission by an independent fiduciary. Much in the same way unemployment funds are impounded by payroll companies and paid at the required time, sales tax becomes a burden to a company when they have to write a large check. This system allows them to pay funds when collected and alleviates the burden of large back end payments. In my opinion the invention possesses substantial merit and incentive for adoption within the financial services industry and is not currently known or practiced, I believe that it cannot be considered as being obvious at the time of invention to someone skilled in the art (in other words, a practitioner in the financial services industry like me). We, as are all payroll companies are constantly looking for products that are synergistic with our current processing and tax payment services. This is a product that is clearly needed in the market. I do believe that if the invention were obvious the technology and process would have been implemented long ago by the national payroll companies (ADP, Paychex and Ceredian) as well as many of the regional payroll processors. In addition, to my knowledge, First Data Corporation, the largest facilitator of electronic funds transfer

in the world and owner of tax software vendor Taxware, does not offer product/service solution based on or similar to this invention.

5. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the Untied States Code and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.

Alan S. Klein

2/38/05
Date

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Inventors: Owen H. BROWN
                 David Neal JOSEPH

Serial No.:   10/010,340

Filed: December 5, 2001

Title: **SECURE DIGITAL ESCROW ACCOUNT TRANSACTION
                 SYSTEM AND METHOD**

Examiner: Gerald J. O'Connor

Group Art Unit: 3627

                                                    January 26, 2005

Commissioner for Patents
P.O. Box 1450
Alexandria, VA 22313-1450

DECLARATION OF JAMES G. ROBERTSON

S I R:

    I, James G. Robertson, declare as follows:

1. I have recently retired from a nationally known provider of employer services solutions
   Automatic Data Processing; (ADP.) My career at ADP began in August 1969, and
   spanned almost 35 years of service before retiring in June 2004. Looking back upon my
   ADP career I had opportunities to manage in a V.P. Role in the Eastern & Great Lakes
   Division as well as managing internationally as the United Kingdom's VP of Sales.

2. During my career at ADP I have held various positions in operations and implementation, product management, sales and sales management. I had an opportunity during my ADP career to be a part of a business that had a revenue stream of some $50 Million dollars during the initial year of employment. Today ADP's business has grown to over $7 Billion in annual revenues in the fiscal year that saw my retirement (2004.)

Enclosed with this declaration is a copy of my "internal" ADP resume which summarizes in further detail the various positions I outlined in section number one.

My career experience with ADP includes the acquisition of Security Pacific Bank, a California based financial institution which gave ADP its early technical platform to impound and escrow statutory payroll related taxes. ADP continued to build upon this payroll tax filing solution that enables employers to transfer their fiduciary responsibility to collect and file employee taxes to a governmental unit. ADP then takes responsibility for the timely and accurate filing to these appropriate governmental agencies. Today ADP collects and holds in overnight funds over $11 Billion dollars of client's payroll tax liabilities.[1]

To date, I am aware of no method currently used in the financial services industry to try and provide an automated sales tax processing solution that would replicate the collection and distribution of the sales tax revenue that is now done in the payroll/employer services industry. Such a tax collection and distribution process would, in my opinion, complement and add efficiencies to employers/merchants faced with daunting responsibilities to collect and file multiple state taxes imposed on goods and services sold to a business' customer base.

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[1] ADP Annual Report June 30, 2004

11194810.01

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3. I am familiar with the DAVO invention for impounding sales tax escrow funds via electronic funds transfer. My initial overview of the DAVO solution was provided in the spring of 2003 at a meeting with Owen H. Brown and David N. Joseph in my ADP Parsippany, NJ Office. My understanding of the invention may be summarized as follows:

A merchant processes credit/debit card and cash transactions using a third party electronic funds processor (EFP). Conventional EFP processing is initiated via point-of-sale terminals at the merchant's retail establishment to obtain credit/debit authorizations for pending transactions from credit/debit issuers, and to perform "closeouts" requesting payment by electronic funds transfer (EFT) from credit/debit issuers.
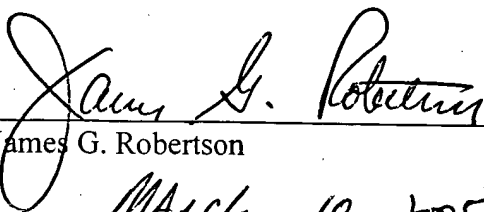
The DAVO invention would extend conventional EFP processing as follows. Merchant sales tax liability would be calculated by the EFP for closed transactions for each merchant. Tax dollars would automatically be impounded from by the EFP from EFT payments made by credit/debit issuers for closed transactions, and transferred to a third party processor who would take responsibility for the timely filing of all state sales taxes. Net EFT payments for closed transactions, less the impounded amounts, would be made by the EFP to a merchant's designated bank account with no active intervention on the part of a merchant required to designate and segregate tax monies, or to make tax payments.

State governments would also be able to use this methodology to collect "back sales taxes" due from merchants that fell in arrears with single or multiple taxing authorities.

4. To the best of my knowledge, no organization other than DAVO is currently generating or seeking to generate repetitive revenue streams with a passive (from an employers/merchant standpoint) sales tax impounding, escrowing and sales tax filing solutions.

In my opinion, the DAVO solution provides an attractive business opportunity for Financial Services organizations. These organizations are constantly looking for new ways to automate money movement methodologies which would complement existing tax filing applications such as payroll. I believe that the DAVO solution is synergistic with employer/employee tax filing offerings currently provided by the large payroll processors (ADP, Paychex, Ceridian) as well as banks and local payroll providers. However, to the best of my knowledge, these organizations are not currently using the type of sales tax reporting technologies described in the DAVO patent application.

5. I hereby declare that all statements made herein of my own knowledge are true and that all statements made on information and belief are believed to be true; and further that these statements were made with the knowledge that willful false statements and the like so made are punishable by fine or imprisonment, or both, under Section 1001 of Title 18 of the Untied States Code and that such willful false statements may jeopardize the validity of the application or any patent issued thereon.

_____
James G. Robertson

_____
Date *MARCH 10, 2005*

James G. Robertson

18 Seventh Avenue, Seaside Park, New Jersey 08752
Home: (732) 793-4650   Cell: (973) 727-5747

Education: Fairleigh Dickinson University, Rutherford, New Jersey
Bachelor of Science- Business Administration

Experience: **Automatic Data Processing (ADP)**

January 2003 to June 2004
Area Vice President
Major Accounts Great Lakes Area

August 2001 to December 2003
Division Vice President
Major Accounts Acquisitions & Alliances

July 2000 to July 2001
Vice President of Sales
United Kingdom

July 1993 to June 2000
Division Vice President
Major Account Eastern Division
Operating Regions Included: Connecticut, Long Island, New York City, Northern New Jersey, Princeton and Philadelphia.

July 1991 to June 1993
National Account Sales Executive
New York Metro Region- New Jersey, New York, Princeton and Philadelphia
National Processing Center Clifton

October 1990 to June 1991
National account Sales Executive
New York City

July 1989 to September 1990
National Account Sales Position/ Account Executive
Selected National Account Sales Program
ADP Corporate

January 1978 to June 1989
District Sales Manager
Regional Sales Position
New York City

April 1975 to December 1977
National Director of Account Executive Program
ADP Corporate

January 1973 to March 1975
Accounts Payable Product Manager
ADP Corporate

January 1972 to December 1972
Manager of Account Payable Production & Implementation
New Product Offering added to Commercial Services
Clifton Operating Region

January 1969 to December 1971
Accounts Receivable Conversion Analyst
Clifton Operating Region

RELATED PROCEEDINGS APPENDIX

No matters were identified in the section of Related Appeal and Interferences and accordingly, there are no attachments in this appendix.